



## **ANALYSIS OF FINANCIAL STABILITY FACTORS, FINANCIAL TARGETS, EXTERNAL PRESSURE, INEFFICIENT MONITORING AND RATIONALIZATION OF THE FINANCIAL STATEMENTS FRAUD**

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**Abstract:** Financial statements are a medium to provide useful information for stakeholders and parties involved. Correct information will help all parties to make the right decisions in carrying out economic or business activities. Fraud is common in the financial and non-financial industries today. Fraud in the financial industry is commonly referred to as financial statement fraud. Up to the third quarter of 2018, 36 banks indicated the occurrence of fraud. This study aims to examine the fraud triangle factor in detecting financial statement fraud. The object of this study uses 43 banking companies listed on the Indonesia Stock Exchange period 2015-2019. Analysis data was using panel regression analysis. The results show there is a significant relationship between financial stability and the rationalization of financial statement fraud. Meanwhile, financial targets, external pressure, and ineffective monitoring did not have a significant effect on financial statement fraud.

**Keywords:** Financial Stability; Financial Statement Fraud; Fraud Triangle; Rationalization

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### **INTRODUCTION**

Financial statements are a medium to provide useful information for stakeholders and parties involved. Correct information will help all parties to make the right decisions in carrying out economic or business activities. But intense business competition often encourages management or certain parties in the company or organization to deliberately manipulate financial statements or do not disclose all important information that must be reported. (Syahputra & Erlina, 2019).

Cressey's theory quoted by Budiyo & Arum (2020) which used the Fraud Triangle theory approach to detect fraud states that three factors are supporting a person committing fraud. The first factor is pressure, where the impulse for fraud is due to pressure in internal financial matters that must be kept secret. Some of the common situations under pressure that lead to fraud include financial stability, financial targets, and external pressures. The second factor is the opportunity which is the opportunity to commit fraud that occurs in three categories of conditions, one of which is inefficient monitoring. The third factor is rationalization, which is just made by the perpetrator to justify his actions.

Fraud is common in the financial and non-financial industries today. Fraud in the financial industry is commonly referred to as financial statement fraud. Financial statement fraud is intentional or unintentional behavior that is committed with material loss and is carried out by manipulating financial statements. Financial statement fraud in banking companies is still high. Based on (Laporan statistik triwulan, n.d.) obtained from the website of the Financial Services Authority, fraud case reports continue to increase every year and are still high. In 2014 there were 59 cases, in 2015 there were 23 cases, in 2016 there were 26 cases, in 2017 there were 57 banks that indicated fraud and up to the third quarter of 2018, there were 36 banks that indicated the occurrence of fraud.



The objectives of this research include: (1) Knowing the effect of financial stability on financial statement fraud in banking companies on the IDX; (2) Knowing the effect of financial targets on financial statement fraud in banking companies on the IDX; (3) Knowing the effect of external pressure on financial statement fraud in banking companies on the IDX; (4) Knowing the effect of inefficient monitoring on financial statement fraud in banking companies on the IDX; (5) Knowing the effect of rationalization on financial statement fraud in banking companies on the IDX.

Financial statements have a significant role as a basis for decision-making. Undetected fraud of financial statements can result in losses at a later date. The causes of fraud consisted of three factors known as the fraud triangle, namely (1) pressure, (2) opportunities, and (3) rationalization. The measurement of fraud in financial statements can use a variety of methods. One of the proxies used to measure fraud in financial statements is earnings management. Earnings management is a fraudulent practice used by managers who involve themselves in the financial statementing process by changing it to generate profits for themselves (Fajri, 2018).

Financial stability is a condition that shows the financial statementing of a company remains stable, which is said to be stable if the company can meet current and future needs. The financial stability of a company can attract investors, and ease of credit. Therefore, managers will keep the company's financial stability stable. Research by Syahria (2019) found that financial stability harms financial statement fraud. The results are consistent with research conducted by Achmad & Pamungkas (2018), Darmawan & Saragih (2017), Diansari & Wijaya (2019), Indarto & Ghozali (2016), Irwandi et al. (2019), Setiawan (2019).

**H<sup>1</sup>:** Financial stability has a negative significance to financial statement fraud.

Financial targets are financial pressures planned by the company that must be achieved according to predetermined targets. Company managers are usually required to carry out the best management to exceed their planning targets. Indarto & Ghozali (2016) found a significant positive effect using ROA as a proxy for financial targets. These results prove that the higher the ROA of the company's target, the more vulnerable the company is to carry out earnings management, which is a form of fraudulent financial statements. The results of the research are similar to research by Achmad & Pamungkas (2018), Ferdinand & Santosa (2019), Rengganis et al. (2019), Supri et al. (2018).

**H<sup>2</sup>:** Financial targets have a positive significance for financial statement fraud.

External pressure is the pressure felt by company management to achieve the wants and requirements of third-party financial statements. Fajri (2018) found that there is a significant positive effect using leverage ratios as a proxy for external pressure where the high leverage ratio indicates the greater likelihood of bankruptcy the company will face. The creditors will continue to consider companies with high levels of leverage so that the disbursed debt can be returned on time, so that flexibility in managing fraud will be reduced. The results of the research are similar to the research by Achmad & Pamungkas (2018), Budiyo & Arum (2020).

**H<sup>3</sup>:** External pressure has a positive significance on financial statement fraud.

Weak supervision in monitoring financial statements is one of the impacts of the practice of fraud. In particular, independent commissioners who are part of the board of commissioners have a very important role in minimizing earnings management, which is a form of financial statementing fraud (Fathia et al., 2017).

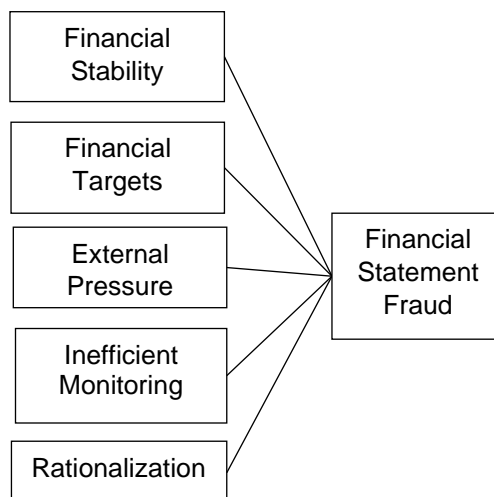
**H<sup>4</sup>:** Inefficient monitoring has a negative significance towards financial statement fraud.

Based on research by Syahputra & Erlina (2019) it is stated that there is a significant positive influence between rationalization on financial statement fraud. That is, the attitude or rationalization of board members,

management, or employees allows them to engage and justify fraudulent financial statementing. The results of the research are the same as the research by Yulistyawati et al. (2019), Anisykurlillah (2016), Premananda et al. (2019)

**H<sup>5</sup>**: Rationalization has a positive significance towards financial statement fraud.

Below is the research model:



**Figure 1. Research Model**

Source: Secondary data processed (2020)

## METHODS

The object of this research was banking companies listed on the IDX from 2015 to 2019 in the form of secondary data. The sampling technique was purposive sampling, where there were considerations with certain criteria, including (1) Banking companies listed on the IDX from 2015 to 2019; (2) Banking companies that had completed the annual report data on the IDX for 2015 to 2019; (3) Presentation of the annual report using rupiah currency from 2015 to 2019. The variables of this research were the dependent variable and the independent variable. In this sample research, the dependent variable is financial statement fraud. And there are 5 (five) independent variables, namely financial stability, financial targets, external pressure, inefficient monitoring, and rationalization.

The data analysis method used panel regression analysis. The programs used SPSS version 25 and Eviews version 9. Descriptive statistical analysis and outlier test used SPSS version 25, and for determining the best model was done by using chow and Hausman test, F-test, T-test, and goodness of fit models using Eviews. Descriptive statistics are methods that are concerned with obtaining and presenting data sets and can generate useful information. An outlier test was used to observe data that had a deviation that was still far from the average, or significantly different from other data by using the SDR (Studentized Residual) method.

Panel regression analysis consists of 3 models: (1) Pooled Least Squares (PLS) which aimed to assume that the regression error is constant, it is estimated that panel data was not affected by time or object; (2) Fixed Effect Model (FEM) which aimed to assume there were differences with the fixed properties of the unit cross-section or time series; (3) Random Effect Model (REM) aimed to assume there were random differences in the unit cross-section or time series. The selection of the best model was done by



using the Chow Test and the Hausman Test. The Chow test was used as a model selection between PLS and FEM while the Hausman test is used as a model selection between FEM and REM. The F-test was carried out to determine the effect of the independent variable on the dependent variable simultaneously. The T-test aims to be tested to determine the effect of partially independent variables. The goodness of fit model test aimed to determine the fit of the model with the R-square percentage.

**Table 1. Measurement of the Dependent and Independent Variables**

Variable	Measurement Method	Source
Financial statement fraud	$DACCit: \frac{TACCit}{TAit-NDACCit}$	Fajri (2018)
Financial stability	$ACHANGE: \frac{Total\ Assets(t)-Total\ Assets(t-1)}{Total\ Assets(t-1)}$	Fajri (2018)
Financial targets	$ROA: \frac{Net\ Income}{Total\ Assets}$	Fajri (2018)
External pressure	$LEV: \frac{Total\ Debts}{Total\ Assets}$	Fajri (2018)
Inefficient Monitoring	$BDOUT: \frac{Total\ independent\ commissioners}{Total\ board\ of\ commissioners}$	Handoko & Selly (2020)
Rationalization	$TACC: \frac{Net\ income-Cash\ flow\ from\ operating\ activities.}{Total\ Assets}$	Budiyono & Arum (2020)

Source: Secondary data processed (2020)

## RESULTS AND DISCUSSION

**Table 2. Descriptive Statistics**

Variable	Minimum	Maximum	Mean	Std. Deviation
Financial statement fraud	-0,157394	181364	0,008709	0,0613702
Financial stability	-0,339975	0,792275	0,113164	0,129887
Financial targets	-0,112274	0,090985	0,008501	0,019195
External pressure	0,052416	0,947936	0,784457	0,183412
Inefficient Monitoring	0,333333	1,000000	0,569837	0,108906
Rationalization	-0,142212	0,163292	0,005894	0,054850

Source: Secondary data processed (2020)

The data was taken from banking companies listed on the IDX from 2015 to 2019 with a total of 43 companies. Of the 215 research data, there were 21 data included in the outlier data. Then the outlier data will be processed by using the SPSS application version 25 and Eviews version 9. In the results of the quantitative descriptive statistics for the sample of 43 companies tested, the results show an average value of financial statement fraud of 0.87%. The standard deviation value was 61%, which means that the tendency of financial statement fraud data each year during the 2015-2019 research year has a deviation rate of 61%. The standard deviation value above the average also means that financial statement fraud has a high level of data variation. Financial stability illustrates the minimum and maximum values of -0.33 and 0.79 and an average value of 0.11 with a standard deviation of 0.12. Financial targets describe the minimum and maximum values of -0.11 and 0.09 and an average value of 0.008 with a standard



deviation of 0.019. External pressure describes the minimum and maximum values of 0.052 and 0.94 and an average value of 0.78 with a standard deviation of 0.18. The standard deviation value below the average means that external pressure has a low level of data variation and low data deviation so that the value is evenly distributed. Inefficient control shows the minimum and maximum values of 0.33 and 1. This shows that the data fluctuates which is not too large. The average value under inefficient monitoring is 0.56 with a standard deviation of 0.10. The rationalization describes the minimum and maximum values of -0.14 and 0.16 and the average value of the rationalization is 0.005 with a standard deviation of 0.05. This means that the standard deviation value is higher than the average, meaning that rationalization has a high level of data variation. Furthermore, the outlier test results illustrate that there are 21 outlier data from a total of 215 sample data. The results of the chow test show a prob value of 0.0000 so in this observation the regression model that is used is FEM. The results of the Hausman test show a prob value of 0.5697 so the regression model used is Random Effect Model

**Table 3. F-Test Results**

<b>Dependent variable</b>	<b>Prob</b>	<b>Conclusion</b>
Financial statement fraud	0,0000	Significance

Source: Secondary data processed (2020)

In the F-test results, the significance value of sig is 0.00, and the significance value is less than 0.05. it can be defined that the independent variable simultaneously has a significant effect on financial statement fraud.

**Table 4. The Results of the T-Test are Measured by Dependent on Financial Statement Fraud**

<b>Independent variable</b>	<b>Coefficient</b>	<b>Prob.</b>	<b>Significance</b>	<b>Hypothesis</b>
Financial stability	-0,038291	0,0000	Significant negative	Proven
Financial targets	-0,065357	0,1309	Not Significant	Not Proven
External pressure	0,006677	0,2606	Not Significant	Not Proven
Inefficient Monitoring	0,009871	0,1635	Not Significant	Not Proven
Rationalization	1,074594	0,0000	Significant positive	Proven

Source: Secondary data processed (2020)

H1: The significance value of the research results is 0.0000 with a coefficient of -0.038291. Based on these results, it can be stated that financial stability has a significant negative effect on financial statement fraud. This means that the greater the financial stability, the lower the probability of financial statement fraud occurring. Every increase in financial stability by one time will reduce the probability of financial statement fraud by 0.038291. The results of this research are in the accordance with the previous research hypothesis by Diansari & Wijaya (2019), Irwandi et al. (2019), Syahria (2019).

H2: The significance value of the research results is 0.1309 with a coefficient of -0.065357. Based on these results, it can be stated that financial statement fraud was not significantly affected by financial targets. This means that large or small financial targets do not affect the occurrence of financial statement fraud. The results of this research are in the accordance with the hypothesis of previous research by Hartanto et al. (2019), Fajri (2018), Safiq & Seles (2019).

H3: The significance value of the research results is 0.2606 with a coefficient of -0.006677. Based on these results, it can be stated that external pressure has no significant effect on financial statement fraud. This means that large or small external



pressures do not affect the occurrence of financial statement fraud. The results of this research are in the accordance with the previous research hypotheses by Handoko & Selly (2020), Syahria (2019), Yulianti et al. (2019).

H4: The significance value of the research results is 0.1635 with a coefficient of 0.009871. Based on these results, it can be stated that financial statement fraud is not significantly affected by inefficient monitoring. Companies whose supervision is inefficient do not affect the occurrence of financial statement fraud. The coefficient of 0.009871 means that there is a unidirectional relationship between inefficient monitoring and financial statement fraud. This means that if the increase in inefficient monitoring is 1 time, the probability of financial statement fraud will increase quite small by 0.009871. The results of this research are following the hypothesis of previous research by Hartanto et al. (2019), Fajri (2018), Sari et al. (2019).

H5: The significance value of the research results is 0.0000 with a coefficient of 1.074594. Based on these results, it can be stated that financial stability has a significant positive effect on financial statement fraud. This means that the greater the rationalization, the higher the probability of financial statement fraud occurring. Every increase in rationalization by one time will increase the probability of financial statement fraud by 1.074594. The results of this research are in the accordance with the previous research hypothesis by Mariati & Indrayani (2020), Noble (2019).

**Table 5. Determination Coefficient Test Results (R2)**

<b>Dependent variable</b>	<b>Adjusted R Square</b>
Financial statement fraud	0,982179

Source: Secondary data processed (2020)

The Adjusted R-square coefficient was 0.98. This means that the independent variable can explain the dependent variable by 98%, and the other 2% was explained by other variables that are not in the research model.

## CONCLUSIONS

The objective of this research was to determine the impact of financial stability, financial targets, external pressure, inefficient monitoring, and rationalization of financial statement fraud in banking companies listed on the Indonesia Stock Exchange for the period 2015-2019. Based on the results of this research, the authors conclude that there is a significant relationship between financial stability and the rationalization of financial statement fraud. Meanwhile, financial targets, external pressure, and inefficient monitoring did not have a significant effect on financial statement fraud.

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